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FM AMEMBASSY QUITO
TO RUEHC/SECSTATE WASHDC 8592
INFO RUEHBO/AMEMBASSY BOGOTA 7409
RUEHCV/AMEMBASSY CARACAS 2933
RUEHLP/AMEMBASSY LA PAZ MAR LIMA 2455
RUEHGL/AMCONSUL GUAYAQUIL 3375
RUEATRS/DEPT OF TREASURY WASHDC

UNCLAS QUITO 000225

SIPDIS

SENSITIVE
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TREASURY FOR MEWENS

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TAGS: [ECON](#) [EAGR](#) [EFIN](#) [EAID](#) [ELTN](#) [SENV](#) [SOCI](#) [EC](#)

SUBJECT: ECONOMIC IMPACT OF RAINS AND FLOODING TOPS \$125 MILLION

REF: A) QUITO 160 B) QUITO 210

¶1. (U) Summary: Following a month of heavy rains in Ecuador, agricultural losses due to extensive flooding now total nearly \$91 million. Repairing roads will likely cost more than \$35 million. The Ecuadorian and U.S. weather services estimate the rains will continue through at least mid-March, which could add to the losses. End summary.

¶2. (U) Rain fell nearly continuously throughout February in much of Ecuador, causing extensive coastal flooding and landslides in the Sierra, particularly in the southern highlands (reftel A). President Correa has declared a state of disaster in ten of Ecuador's 22 provinces (approximately 25% of the country), and the government is reviewing major infrastructure damage in at least fifteen provinces. The rice crop has been particularly affected, with 28,000 hectares lost. The Ministry of Transport and Public Works estimates that 1700 kilometers of roads have been damaged and six bridges have been destroyed, while clean-up efforts to move mudslides and sewage overflow have been difficult due to continuing rain.

AGRICULTURE TAKES HITS ON THE COAST, ALSO IN SIERRA

¶3. (U) The Ministry of Agriculture estimates that over 100,000 hectares of crops throughout Ecuador have been damaged or lost by the flooding, including rice, corn, bananas/plantain, coffee, sugar cane, soy and cacao along the coast. Almost 69,000 hectares of shrimp and tilapia farms are a total loss. In the highlands, beans, potatoes, tomatoes and peppers have been lost. So far there is no shortfall of rice, and prices have remained stable. The Ministry has said that most crops affected by the floods are for export and will not affect prices in the Ecuadorian market. Still, the Ministry's Planning Director has warned that if the rain continues through March and another 10-15 thousand hectares are lost, it could cause a rice shortage, thereby affecting prices. During the last week of February Agriculture Minister Walter Poveda announced contingency plans to import 40,000 tons of rice, possibly from the United States.

¶4. (U) The Government of Ecuador has announced it will channel \$38 million in funds through the Ministry to aid to small farmers (those cultivating less than 30 hectares), who have been hit the hardest.

¶5. (U) The USG has provided nearly \$800 thousand of confirmed and pending USG disaster assistance, principally for the flooding, but also for a volcanic eruption (the Tungurahua volcano has been active since late December). Press coverage has been positive, and informal requests for help from working level contacts have been numerous.

CONCERN OVER AGRICULTURAL LOANS

¶16. (U) In early March the press reported that bank loans to the agricultural sector are worth over \$600 million. Banks are nervous based on their experience in 1998, when crops ruined by El Nino eventually caused default on agricultural loans, contributing to the banking crisis of 1999. The Ministry of Agriculture is working with government-owned National Development Bank (Banco Nacional de Fomento) and the National Financial Corporation (Corporacion Financiera Nacional) to restructure loans to small producers, issuing credits at 5-7% interest based on a formula that reflects losses due to the flooding.

ROAD INFRASTRUCTURE DAMAGE DIFFICULT TO ESTIMATE

¶17. (U) Already dealing with road damage due to eruptions of the Tungurahua volcano, the Ministry of Transport's Office of Highway Maintenance has inventoried damage to 43 highways (1700 km), particularly in rural areas, due either to flooding or, at higher elevations, to mudslides. At least six bridges have been lost and the Ministry is currently making efforts to replace them with pre-fabricated steel panel bridges.

¶18. (U) The Ministry estimates it will need approximately \$35 million in coming weeks to continue with clean up efforts of collapsed roads and hillsides, sewer repair and the dredging of ditches. The Ministry has expressed frustration at not being able to begin many repair efforts due to high water levels.

¶19. (U) In addition to the damaged roads, one landslide broke Petroecuador's primary petroleum pipeline (reftel B), but was quickly repaired.

AN "ATYPICAL" LA NINA

¶110. (U) Carlos Lugo, Director of Ecuador's national weather service, INAMHI (Instituto Nacional de Meteorologia en Hydrologia), calls Ecuador's current weather patterns "an atypical" La Nina, meaning that while La Nina (which happens when sea surface temperatures are lower than normal) has been active in the eastern Pacific since last fall, the current ferocity of continuous rain and cold temperatures is unlike what has been previously witnessed.

¶111. (U) In addition, the U.S. National Oceanic and Atmospheric Administration (NOAA) has told post that in recent weeks (February 15 to March 1), ocean surface temperatures have been anomalously HIGH between the coast of Ecuador and the Galapagos Islands, creating unstable conditions that will likely result in heavy rains through at least mid-March. NOAA expects these warm temperatures to continue for the near future.

COMMENT

¶112. (SBU) The final cost of damage will depend on how long current weather patterns persist. While rains abated in the last week of February, they have returned with a vengeance on the coast, with damaging floods in the southern coastal towns of Huaquillas and Machala, and the first street flooding of the year in Guayaquil. If rains continue as forecasted, Ecuador is quite likely to need further assistance as flooding continues and public health implications become more serious.

¶113. (SBU) The agricultural losses and repair costs -- which may grow above current estimates -- are significant for an economy that was already growing slowly and has a number of other pressing investment needs. We anticipate that the price of agricultural products -- rice, in particular -- may rise by the end of March. Post will continue to monitor the impact of the flooding on trade, employment and overall growth.

BROWN